Chapter 5  Recording Capital Asset Transactions

Street Improvement Capital Projects Fund and Governmental Activities at the Government-Wide Level

During late 2004, the voters of the City of Smithville authorized tax-supported bond issues totaling $6,500,000 as partial financing for a series of projects to construct or reconstruct streets, curbs, sidewalks, bridges, culverts, and storm sewers in various parts of the City. The estimated total cost of the series of projects was $7,000,000. In addition to the proceeds of the bonds, special assessments totaling $500,000 will be levied against property owners deemed to be particularly benefited by one of the projects, designated the "Springer Street Project." All special assessments will be due December 1, 2005, without interest. Any special assessments unpaid on December 1 will be subject to a 10 percent penalty, plus interest at the rate of 1 percent per month until paid.

Required

a. Open a general journal for the Street Improvement Fund by recording the transactions listed under paragraph b below, as necessary. Use account titles listed under the drop-down [Account#/Account Description] menu. Select 2005 for each transaction in the [year] box of the [Journal] view. Enter the paragraph reference, i.e. 5-b-[1, 2, 3, etc], in the [Transaction Description] box. The following account titles should appear in the [Accounts] view:

Cash
Investments
Special Assessments Receivable--Current
Interest Receivable on Investments
Judgments Payable
Vouchers Payable
Contracts Payable
Contracts Payable--Retained Percentage
Fund Balance
Reserve for Encumbrances--Springer Street Project
Reserve for Encumbrances--Alzmann Street Project
Construction Expenditures--Springer Street Project
Interest Expenditures--Springer Street Project
Construction Expenditures--Alzmann Street Project
Encumbrances--Springer Street Project
Encumbrances--Alzmann Street Project
Revenues
Proceeds of Bonds
b. Record journal entries in the general journal of the Street Improvement Fund, as appropriate, for each of the following transactions. Remember to enter the correct year and paragraph numbers. Do not record entries at this time in other affected funds; those entries will be made in later chapters of this cumulative problem that cover those funds. You should, however, make all required entries in the Governmental Activities general journal at the government-wide level.

1. [Para. 5-b-1] On January 2, 2005, plans and specifications for the first project, to be known as "Springer Street Project," were prepared by a consulting engineer's office. The engineer sent the Street Improvement Fund an invoice for $18,000.

   Required: Record the "Vouchers Payable" liability in the Street Improvement Fund and Governmental Activities journals. At the government-wide level you should debit Construction in Progress to capitalize this expenditure.

2. [Para. 5-b-2] On January 2, 2005, special assessments in the amount of $500,000 were recorded as receivable; revenue in that amount was recognized.

   Required: Record this transaction in the Street Improvement Fund and Governmental Activities journals.

3. [Para. 5-b-3] Advertisements soliciting bids for the first project were published at a cost of $200; this amount was vouchered on January 15, 2005.

   Required: Record the "Vouchers Payable" liability in the Street Improvement Fund and Governmental Activities journals. Again, you should debit Construction in Progress at the government-wide level.

4. [Para. 5-b-4] On February 15, 2005, construction bids were opened and analyzed. A bid of $1,200,000 was accepted, and the contract was let immediately. The contract called for a 4 percent retention from each progress payment, and from the final payment, until final inspection and acceptance by the consulting engineers.

   Required: Record the signing of the contract in the Street Improvement Fund general journal. This transaction has no effect at the government-wide level.

5. [Para. 5-b-5] On April 1, 2005, deferred serial bonds in the amount of $1,000,000 were sold at $1,040,000, $17,500 of which was for interest (7%) accrued from the date of the bonds (January 1, 2005) to the date of the sale. Cash in the amount of the premium and accrued interest was deposited in the Street Improvement Bond Debt Service Fund. Cash in the amount of $1,000,000 was deposited in the Street Improvement Fund, of which $400,000 was invested immediately in certificates of deposit maturing on September 1 and earning 6% per annum.

   Required: Record these transactions in the Street Improvement Fund and Governmental Activities journals. [Hint: In addition to recording the liability for
bonds payable in the Governmental Activities Journal, you should record the premium on the bonds payable (Credit Premium on 7% Deferred Serial Bonds) and accrued interest on bonds sold (credit Expense - Interest on Long-Term Debt) in the governmental activities general journal.] Entries in the Street Improvement Bond Debt Service Fund to record the accrued interest and premium will be made in Chapter 6 of this cumulative problem, so ignore those entries for now.

6. **[Para. 5-b-6]** The total amount of Vouchers Payable was paid on April 15, 2005.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities general journals.

7. **[Para. 5-b-7]** The contractor requested a progress payment of $500,000. This amount was paid on May 1, 2005, less the agreed 4 percent retention.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities general journals.

8. **[Para. 5-b-8]** Two property owners along Springer Street claimed the new sidewalk was not where they had given easements. A resurvey proved the sidewalk was laid erroneously, but the City did not feel the property owners were entitled to damages. The property owners brought suit and were awarded a total of $10,000, which was recorded as a liability on July 29, 2005. The amount will be borne by the Street Improvement Fund; it will not be recoverable from the contractor.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities journals. [Hint: Credit Judgments Payable]

9. **[Para. 5-b-9]** Plans and specifications for the second street improvement project, to be known as the "Alzmann Street Project," were prepared by the consulting engineer's office. The engineer's invoice in the amount of $16,000 was vouchered for later payment.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities journals.

10. **[Para. 5-b-10]** Advertisements soliciting bids for the Alzmann Street Project were published at a cost of $250. The amount was paid by the Street Improvement Fund.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities journals.
11. [Para. 5-b-11] The contractor for the Springer Street Project requested a progress payment of $500,000. This amount was recorded as a liability on that date.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities journals.

12. [Para. 5-b-12] Construction bids for the Alzmann Street Project were opened and analyzed. A bid in the amount of $980,000 was accepted, and the contract, bearing a 5 percent retention clause was signed in August 2005.

**Required:** Record this transaction in the Street Improvement Fund only. No effect at the government-wide level.

13. [Para. 5-b-13] On September 1, 2005, the 6% certificates of deposit matured; the face amount of $400,000 plus interest of $10,000 was collected. The interest is considered revenue of the Street Improvement Fund.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities journals.

14. [Para. 5-b-14] In late September 2005 the amount due the contractor, less the agreed retainage (see Transactions 7 and 11), was paid, as were outstanding vouchers. Judgments Payable, including interest thereon of $500, was paid on the same date. The interest is to be borne by the Street Improvement Fund and is **not** to be capitalized.

**Required:** Record these transactions in both the Street Improvement Fund and governmental activities journals.

15. [Para. 5-b-15] Special assessments in the amount of $500,000 were collected prior to December 1, 2005. This amount was invested in 6% U.S. Treasury notes at par on December 1, 2005; no interest was accrued on the notes at date of purchase.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities journals.

16. [Para. 5-b-16] $2,500 interest was accrued on the investment in Treasury notes as of December 31, 2005. Fair market value of these notes was the same as cost at December 31, 2005.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities journals.
17. Verify the accuracy of all your preceding entries in the Street Improvements Fund and Governmental Activities General Journal, then click [Post Entries] of each entity to post the entries to the respective general ledgers. For the Street Improvement Fund only, prepare year-end closing entries for 2005 and post them to the Fund’s general ledger. [Note: Be sure to click on the check mark for [Closing Entry] and type “Closing Entry” in the [Transaction Description] box for each account being closed.]. Click [Post Entries] to post the closing entry. Closing entries will be made in the governmental activities general journal in Chapter 9 of this cumulative problem. Ignore those entries for now.

c. Print the Street Improvement general journal for year 2005.

d. Export the post-closing trial balance for year 2005 to an Excel worksheet and use Excel to prepare a Balance Sheet for the Street Improvement Fund as of December 31, 2005. (See Illustration 4-5 in the textbook for an example of an appropriate format of a governmental fund balance sheet.). In addition, print the post-closing trial balance from the [Reports] drop-down menu.

e. Export the pre-closing trial balance for year 2005 to an Excel worksheet and use Excel to prepare a Statement of Revenues, Expenditures, and Changes in Fund Balance for the Street Improvement Fund for the year ended December 31, 2005. (See Illustration 5-3 in textbook for an example of the format of a capital projects fund statement of revenues, expenditures and changes in fund balance.). Print the Pre-Closing Trial Balance from the [Reports] drop-down menu.

[Note: Retain all required printouts and your financial statements in your cumulative folder until directed by your instructor to turn it in, unless your instructor prefers to have computer files submitted via e-mail.]